

(Caption of Case)
In the Matter of:

COVER SHEET

DOCKET
NUMBER: 2012 - - E

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DOCKETING INFORMATION (Check all that apply)☐ **Other:**

| INDUSTRY (Check one) | NATURE OF ACTION (Check all that apply) | | | |
|--|--|--|--|--|
| <input checked="" type="checkbox"/> Electric | <input type="checkbox"/> Affidavit | <input type="checkbox"/> Letter | <input type="checkbox"/> Request | |
| <input type="checkbox"/> Electric/Gas | <input type="checkbox"/> Agreement | <input type="checkbox"/> Memorandum | <input type="checkbox"/> Request for Certification | |
| <input type="checkbox"/> Electric/Telecommunications | <input type="checkbox"/> Answer | <input type="checkbox"/> Motion | <input type="checkbox"/> Request for Investigation | |
| <input type="checkbox"/> Electric/Water | <input type="checkbox"/> Appellate Review | <input type="checkbox"/> Objection | <input type="checkbox"/> Resale Agreement | |
| <input type="checkbox"/> Electric/Water/Telecom. | <input type="checkbox"/> Application | <input checked="" type="checkbox"/> Petition | <input type="checkbox"/> Resale Amendment | |
| <input type="checkbox"/> Electric/Water/Sewer | <input type="checkbox"/> Brief | <input type="checkbox"/> Petition for Reconsideration | <input type="checkbox"/> Reservation Letter | |
| <input type="checkbox"/> Gas | <input type="checkbox"/> Certificate | <input type="checkbox"/> Petition for Rulemaking | <input type="checkbox"/> Response | |
| <input type="checkbox"/> Railroad | <input type="checkbox"/> Comments | <input type="checkbox"/> Petition for Rule to Show Cause | <input type="checkbox"/> Response to Discovery | |
| <input type="checkbox"/> Sewer | <input type="checkbox"/> Complaint | <input type="checkbox"/> Petition to Intervene | <input type="checkbox"/> Return to Petition | |
| <input type="checkbox"/> Telecommunications | <input type="checkbox"/> Consent Order | <input type="checkbox"/> Petition to Intervene Out of Time | <input type="checkbox"/> Stipulation | |
| <input type="checkbox"/> Transportation | <input type="checkbox"/> Discovery | <input type="checkbox"/> Prefiled Testimony | <input type="checkbox"/> Subpoena | |
| <input type="checkbox"/> Water | <input type="checkbox"/> Exhibit | <input type="checkbox"/> Promotion | <input type="checkbox"/> Tariff | |
| <input type="checkbox"/> Water/Sewer | <input type="checkbox"/> Expedited Consideration | <input type="checkbox"/> Proposed Order | <input type="checkbox"/> Other: | |
| <input type="checkbox"/> Administrative Matter | <input type="checkbox"/> Interconnection Agreement | <input type="checkbox"/> Protest | | |
| <input type="checkbox"/> Other: | <input type="checkbox"/> Interconnection Amendment | <input type="checkbox"/> Publisher's Affidavit | | |
| | <input type="checkbox"/> Late-Filed Exhibit | <input type="checkbox"/> Report | | |

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2012-_____ E

In the Matter of:

Petition of Duke Energy Carolinas, LLC for an
Accounting Order to Defer Certain Capital and
Operating Costs Incurred for the Buck Natural
Gas Combined Cycle Generating Plant and the
Bridgewater Hydro Generating Plant

**PETITION FOR
ACCOUNTING ORDER**

Pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2011) and 26 S.C. Code Ann. Reg. 103-825 (1976, as amended), Duke Energy Carolinas, LLC (“Duke Energy Carolinas” or the “Company”) respectfully petitions the Public Service Commission of South Carolina (“Commission”) to issue an accounting order for regulatory accounting purposes authorizing the Company to defer in a regulatory asset account certain post-in-service costs that are being or will be incurred in connection with (1) the addition of the Buck Combined Cycle Generating Plant (“Buck”) and (2) the addition of the Bridgewater Hydro Generating Plant (“Bridgewater”). The costs Duke Energy Carolinas is seeking to defer are (1) the unrecovered incremental return and depreciation expense that are being or will be incurred in the months of December 2011 and January 2012 on the plant capital costs balance as of August 31, 2011; (2) the unrecovered incremental return and depreciation expense that are being or will be incurred from December 2011 through January 2013 on the plant capital costs expenditures subsequent to August 31, 2011; and (3) the incremental non-fuel operation and maintenance (“O&M”) expenses that are or will be incurred from December 2011 through January 2013. The Company calculates the cost of capital included in this deferral request to be \$8 million as allocated to SC retail operations,

and the incremental non-fuel expenses associated with these new plants to total \$4 million as allocated to SC retail operations.

The unrecovered incremental costs for which this deferral treatment is requested include depreciation, cost of capital, and the related non-fuel O&M expenses that will be submitted as a cost component of electric rates in the Company's next general rate case application, which the Company contemplates filing in August 2012. In that application, the Company plans to seek an increase in its electric base rates to reflect, among other things, the updated capital expenditures and the annual incremental O&M costs of the Buck and Bridgewater additions. If this Petition is approved by the Commission, that application will also include a levelized amount to amortize and recover over a period of years the costs deferred and accumulated in the regulatory asset account for Buck and Bridgewater.

Although Buck and Bridgewater were placed in service and are used and useful in providing electric service to its South Carolina retail customers (November 14, 2011 for Bridgewater and November 27, 2011 for Buck) prior to the close of the hearing in the Company's general rate case currently pending in Docket No. 2011-271-E ("2011 Rate Case"), the unaudited capital plant cost of these assets incurred subsequent to August 31, 2011 will not be included in the new rates approved by the Commission in that case. As a result, \$74 million (\$18 million on a South Carolina retail basis) of the capital cost of Buck and \$23 million (\$5 million on a South Carolina retail basis) of the capital cost of Bridgewater, along with the annual incremental O&M expenses incurred to operate these plants, will not be included in the cost of service used to determine the 2012 rates.

Consequently, the return and depreciation expense the Company will incur in December 2011 and January 2012 on the August 31, 2011 balance of the capital costs of Buck and Bridgewater are included in this petition. Likewise, the remaining capital costs of Buck and

Bridgewater and the plants' O&M costs are also in this petition. Deferring the capital costs will allow auditing before inclusion in rates in the next general rate case, and the Company will avoid the adverse impact to its earnings associated with these asset additions that would occur in the absence of the requested deferred accounting treatment. The deferred cost for the return and depreciation on the remaining capital costs and the associated incremental O&M expenses is approximately \$51 million before income taxes (\$12 million on a South Carolina retail basis) assuming new rates resulting from the Company's next general rate case proceeding are effective February 6, 2013.¹ Duke Energy Carolinas will suffer a decline of approximately \$12 million in 2012 in its earnings unless the Company is permitted to defer the cost associated with Buck and Bridgewater as requested in this Petition. Avoiding such an adverse earnings impact is important to Duke Energy Carolinas' ability to maintain its financial strength and to access necessary capital on reasonable terms, particularly during this time of uncertainty in the global financial and credit markets. Further, customers are already benefiting from the increased capacity and reduced fuel costs associated with these plants.

In support of this Petition, Duke Energy Carolinas respectfully shows the Commission the following:

Name and Address of Duke Energy Carolinas

- 1) The correct name and post office address of the Company are:

Duke Energy Carolinas, LLC
Post Office Box 1006
Charlotte, NC 28201-1006

Notices and Communications

- 2) The name and address of the attorney of Duke Energy Carolinas who is authorized to receive notices and communications with respect to this Petition is:

¹ This includes the Company's authorized return for 2011, and the return included in the Settlement Agreement in the Company's current rate case in Docket No. 2011-271-E.

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Description of the Company

3) Duke Energy Carolinas is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the central and western portions of North Carolina and the western portion of South Carolina. The Company also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. Duke Energy Carolinas is a corporation organized and existing under the laws of North Carolina authorized to transact business in the State of South Carolina and is a public utility under the laws of that State. Accordingly, its operations in South Carolina are subject to the jurisdiction of the Commission pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Addition of the Buck Natural Gas Combined Cycle Generating Plant

4) The 620 MW Buck plant was placed in service on November 27, 2011. The capital cost of Buck incurred subsequent to August 31, 2011 was not audited by the Office of Regulatory Staff and will not be included in the rates approved by the Commission in the 2011 Rate Case. As a result, \$74 million (\$18 million on a South Carolina retail basis) of the capital cost of Buck, along with the annual incremental O&M expenses incurred to operate this plant, were not included in cost of service for the 2011 Rate Case. In addition, the return and depreciation expense that are being or will be incurred in December 2011 and January 2012 on the Buck investment balances as of August 31, 2011 will not be recovered in the new rates effective in February 2012. The total costs associated with Buck to be deferred will be based on

the date Buck was placed in service through the date the capital costs of Buck and the operating costs of Buck are reflected in base rates.

The Bridgewater Hydro Generating Plant Powerhouse Upgrade

5) The 31.5 MW Bridgewater plant was placed in service on November 14, 2011. The capital costs of Bridgewater incurred subsequent to August 31, 2011 were not audited by the Office of Regulatory Staff and will not be included in the rates approved by the Commission in the 2011 Rate Case. As a result, \$23 million (\$5 million on a South Carolina retail basis) of the capital cost of Bridgewater, along with the annual incremental O&M expenses incurred to operate this plant, will not be included in cost of service in the 2011 Rate Case. In addition, the return and depreciation expense that are being or will be incurred in December 2011 and January 2012 on the Bridgewater investment balances as of August 31, 2011 will not be recovered in the new rates effective in February 2012. The total costs associated with Bridgewater to be deferred will be based on the date Bridgewater was placed in service through the date the capital costs of Bridgewater and the operating costs of Bridgewater are reflected in base rates.

Financial Consequences of Duke Energy Carolinas' Request

6) In its most recent earnings surveillance report filed with the Commission, Duke Energy Carolinas reported earnings of 7.62%, significantly less than the 11% rate of return on jurisdictional common equity approved by the Commission in the Company's last general rate case in Docket No. 2009-226-E. Without approval of this deferral request, the Company will already be under earning during the effective period of the new rates resulting from the Company's current rate case in Docket No. 2011-271-E. The \$12 million of costs (as allocated to South Carolina retail operations) Duke Energy Carolinas seeks to defer is material and could harm the Company's earnings during this time if the deferral is not granted. At the same time, because Duke Energy Carolinas will propose in its next rate case to recover the deferred costs

over a multi-year period, the ultimate rate impact of this deferral—if approved by the Commission—will be mitigated.

7) Duke Energy Carolinas anticipates making significant capital expenditures over the next few years and beyond to comply with increasing environmental requirements, meet customer demand, and modernize its generation fleet and power delivery system. In today's volatile global financial markets, the Company's earnings, credit quality, and financial performance are even more closely scrutinized by the financial community generally and potential investors and credit rating agencies in particular. Many of the fundamental financial ratios reviewed by the various rating agencies in rating the creditworthiness of Duke Energy Carolinas' debt could be adversely impacted by a denial of the requested deferred accounting treatment. In light of the Company's significant capital needs and the global credit crunch, maintaining credit quality is both critical and challenging. The Commission's approval of the requested deferred accounting treatment will enhance the Company's ability to attract necessary capital on a reasonable and timely basis because it reinforces the market's positive perception of a constructive regulatory environment in South Carolina. Such approval will help mitigate the potential for a material deterioration in earnings in 2012, which will benefit both the Company and its customers in helping maintain investors' confidence in the Company and help assure access to needed capital on reasonable terms.

EFFECTIVE DATE

8) An accounting order granting the relief Duke Energy Carolinas seeks in this Petition will not preclude the Commission or any party from addressing the reasonableness of the costs deferred in the regulatory asset account in a subsequent general rate or other proceeding.

9) Duke Energy Carolinas wishes to reflect the requested deferral of the costs on its quarterly financial reports for the first quarter of 2012. In order to do so, the Company requests an order approving this deferral as soon as possible, but no later than March 31, 2012.

CONCLUSION

10) The total remaining capital investment in Buck and Bridgewater of \$97 million is financially significant and constitutes an extraordinary item of cost. This Commission has in the past authorized deferred accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. For example, in the Company's 1991 rate case, the Commission authorized the deferral of \$15.6 million of the costs associated with the Bad Creek Pumped Hydroelectric Station "during the period between commercial operation of each unit and the date the new rates were approved reflecting the inclusion of the Bad Creek costs. *Order Approving Rate Increase*, Order No. 91-1022 (November 18, 1991) in Docket No. 91-216-E at p. 31. More recently, the Commission authorized deferral of the costs incurred from the addition of the Cliffside Steam Station Unit 5 flue gas desulfurization equipment to the date the Company was authorized to reflect recovery of those costs in its rates. *Order Approving Petition*, Order No. 2011-80 (February 1, 2011) in Docket No. 2010-392-E. Thus, Commission precedent supports similar treatment for the costs at issue here.

11) In summary, authorizing deferral of the incremental costs relating to placing in service the Buck and the Bridgewater plants is important to the maintenance of the Company's credit quality and financial integrity and could assist in the remediation of a possible material deterioration in its 2012 earnings. It is also appropriate and reasonable to defer these costs because retail customers are already receiving the benefits of the lower fuel and fuel-related costs associated with these plants.

WHEREFORE, Duke Energy Carolinas respectfully requests the Commission to allow it to establish a regulatory asset account to which it may charge the post-in-service costs incurred related to the capital costs of Buck and Bridgewater and the associated depreciation costs and incremental O&M costs from the date these assets were placed in service until the date the related costs of these assets are reflected in electric base rates.

Respectfully submitted, this 2nd day of February, 2012.

DUKE ENERGY CAROLINAS, LLC

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